

Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 AID-05 XMB-02 AGRE-00 TRSE-00 CIAE-00
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TO AMEMBASSY SEOUL

C O N F I D E N T I A L STATE 045608

E.O. 11652: GDS

TAGS: EFIN, ECON

SUBJECT: KOREA CG MEETING

REF: A) SEOUL 998, B) SEOUL 1170

1. WE AGREE WITH DPM NAM'S CONCEPT FOR PARIS KCG MEETING
IN PARA 1 REF A. IN FACT, THIS WAS GENERAL SCENARIO OF
LAST KCG MEETING WHEN US HAD BEGUN PHASING OUT CONCESSIONAL
PROGRAM, AND MOST OTHER COUNTRIES ALREADY PROVIDED ONLY
CREDITS ON COMMERCIAL BASIS. ONLY SIGNIFICANT DIFFERENCE
FROM LAST KCG SHOULD BE IN TONE OF MEETING DUE TO RADICALLY
DIFFERING PROSPECTS FOR ECONOMY THEN AND NOW.

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2. WE HAVE NOT YET SEEN 1977 IBRD REPORT ON KOREA, BUT WE
UNDERSTAND DRAFT IS SOMEWHAT CRITICAL OF BASIC KOREAN
DEVELOPMENT STRATEGY FOR FOURTH FIVE-YEAR DEVELOPMENT
PLAN, AND SOMEWHAT PESSIMISTIC ON LIKELIHOOD OF KOREA
ACHIEVING EXPORT TARGET OF \$13 BILLION BY 1981. IN BANK'S
VIEW KOREANS ARE NOW DEVELOPING EXPORTS THAT WILL BRING
THEM INTO INCREASING COMPETITION WITH INDUSTRIALIZED

NATIONS IN GLOBAL MARKETS. SINCE ROK DEVELOPMENT STRATEGY BASED ON GNP GROWTH, WHICH IN TURN DEPENDS ON EXPORT GROWTH, BANK HAS RESERVATIONS ON KOREA ATTAINING FIVE-YEAR DEVELOPMENT PLAN TARGETS. ASSISTANT MINISTER FOR PLANNING SUH SUK JOON RECENTLY VISITED WASHINGTON TO DISCUSS KOREAN OBJECTIVES WITH IBRD AND ATTEMPT WORK OUT DIFFERENCES WITH BANK. WE UNDERSTAND DRAFT REPORT WILL PROBABLY BE ISSUED IN FIRST WEEK OF MARCH. THEREFORE WE UNABLE REVIEW ISSUES OF REPORT AT THIS TIME.

3. WE ARE OF COURSE SYMPATHETIC TO NAM'S DESIRE TO HAVE SOME IDEA OF OVERALL US SUPPORT WHICH ROK MAY EXPECT OVER FIVE-YEAR PLAN PERIOD. AS YOU RECOGNIZED, THIS APPROACH HAS DIFFICULTIES FOR US, NOT THE LEAST OF WHICH IS THE ROK'S OWN PAST SUCCESS, AND THE NATURE OF THE POSSIBILITIES, AS EXPLAINED BELOW.

4. OUR SPECIFIC COMMENTS ON PARA 2 OF REFTEL FOLLOW:
EXIM: AS EMBASSY POINTS OUT, EXIM DOES NOT PROGRAM ITS FUNDING IN ADVANCE. PRESENT EXPOSURE, AS OF END JANUARY, JUST OVER \$1 BILLION. EXIM STILL WILLING FINANCE PROJECTS WHICH FIT KOREAN PRIORITIES, BUT EACH PROJECT WEIGHED ON ITS OWN MERITS. CCC: AS YOU ARE AWARE, PRIMARY PURPOSE OF CCC FUNDS IS MARKET DEVELOPMENT. WHILE CCC MAY IN PRACTICE ASSIST ECONOMIC DEVELOPMENT, IT IS NOT MEANT AS DEVELOPMENT OR BOP ASSISTANCE. AS EMBASSY AWARE FROM STATE 253647 OF OCTOBER 13, 1976, THERE ARE DISTINCT LIMITS TO CCC, AND ROK WILL NEED TO TURN INCREASINGLY TO COMMERCIAL CREDIT, PARTICULARLY FOR LARGE IMPORTS OF COTTON. AS IS CONFIDENTIAL

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THE CASE WITH EXIM, CCC DOES NOT ALLOCATE FUNDS BY COUNTRY. THEIR OPERATING LEVELS ARE BASED ON AVAILABLE COMMODITIES. FOR INSTANCE IN FY 1974 AND 75, TOTAL WORLD ASSISTANCE LEVELS WERE \$250 MILLION, DUE TO SHORT SUPPLIES IN WHEAT AND FEED GRAINS. BUT IN FY 76, BUDGET INCREASED TO \$1.025 BILLION. TOTAL CCC EXPORTS TO KOREA IN FY 76 WERE \$287.9 MILLION. FY 75 EXPORTS WERE \$60.2 MILLION, AND \$48.4 MILLION IN FY 74. AS OF 15 FEBRUARY, TOTAL COMMITMENTS FOR KOREA FOR FY 77 ARE \$98.9 MILLION, BROKEN DOWN AS FOLLOWS: COTTON \$41.2; WHEAT \$51.2; BREEDING CATTLE \$2.5; TALLOW \$4.0 MILLION. DUE TO UNCERTAINTY OF CROP LEVELS IN U.S. AND OF ROKG REQUESTS, CCC UNABLE MAKE PREDICTIONS BEYOND CURRENT CROP YEAR. FMS CREDITS: AS YOU KNOW, DEPARTMENT DOES NOT CONSIDER FMS CREDITS AS APPROPRIATE ITEM FOR DISCUSSION IN CG FORUM. IN ANY CASE, WE ARE UNABLE TO GO BEYOND CURRENT GUIDANCE ON FUTURE FMS LEVELS. P.L.480: WITH CONCLUSION THIRD AMENDMENT 1976 AGREEMENT, TOTAL VALUE OF AGREEMENTS IS \$512 MILLION UNDER KENNEDY UNDERSTANDING, LEAVING BALANCE OF \$264 MILLION.

\$32 MILLION ANNUAL RICE COMPONENT IN KENNEDY FORMULA MAY NOT BE UTILIZED IF KOREAN CROPS REMAIN GOOD AND THERE IS NO NEED FOR RICE IMPORTS AND CURRENT BALANCE WOULD BE REDUCED TO \$200 MILLION. AT PRESENT TIME, US POLICY IS TO HONOR LONGSTANDING COMMITMENT. HOWEVER, WE ARE UNABLE TO PROJECT AT THIS TIME WHETHER ROKG WOULD CONTINUE TO RECEIVE PL-480 COMMODITY ASSISTANCE AFTER COMMITMENT FULFILLED. IF KOREA SHOULD RECEIVE PL-480 ASSISTANCE IN 1979 OR 1980, WE WOULD LIKELY WANT TO HARDEN CREDIT TERMS IN VIEW OF KOREA'S IMPROVED ECONOMIC SITUATION. HIG: ACCORDING CURRENT LEGISLATION, MAXIMUM ANNUAL COUNTRY LEVEL IS LIMITED TO \$25 MILLION, WITH \$15 MILLION AVERAGE FOR ALL COUNTRIES REQUIRED WITHIN YEAR. ELIGIBILITY IS LIMITED TO COUNTRIES WHICH ARE CURRENTLY OR HAVE BEEN RECIPIENTS IN PRIOR TWO YEARS OF ASSISTANCE UNDER TITLE I OF FAA. IN ADDITION, FOR FY 77, OMB PLACED OVERALL LIMITATION ON HIG'S OF \$80 MILLION. IN VIEW OF STATE
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OF FLUX OF HIG PROGRAM, AND CONGRESSIONAL UNCERTAINTIES, WE ARE UNABLE TO FORECAST LEVELS FOR FY 1978 AND BEYOND.

5. WITH EXCEPTION EXIM LOANS AND CERTAIN AMOUNT OF CCC, ABOVE INDICATES THAT TREND OF DECLINING US OFFICIAL ASSISTANCE, PARTICULARLY FOR BALANCE OF PAYMENTS, WELL ESTABLISHED AND UNLIKELY TO BE REVERSED FOR VARIETY OF REASONS. ROKG'S OWN PROJECTIONS INDICATE IT LIKELY THAT THEY WILL NOT REQUIRE EXTENSIVE BOP SUPPORT OVER PLAN PERIOD. PARA 1 REF A INDICATES NEW SITUATION APPRECIATED BY DPM NAM, AND WE CONCUR IN HIS JUDGMENT THAT GROWING WORLD UNDERSTANDING OF KOREAN ECONOMY AND ACCESS TO WORLD CAPITAL MARKETS IS KEY TO FURTHER ECONOMIC DEVELOPMENT. WE THEREFORE BELIEVE WE SHOULD USE KCG TO EMPHASIZE NEW SETTING FOR KOREAN DEVELOPMENT AND OUR ENCOURAGEMENT OF ROKG'S PLANS TO FINANCE FURTHER GROWTH THROUGH WORLD CAPITAL MARKETS.

6. AS REGARDS US REPRESENTATION AT KCG, ECONOMIC COUNSELOR WOULD BE MOST WELCOME AS STATE REPRESENTATIVE. DELEGATION WILL BE HEADED BY AID ASSISTANT ADMINISTRATOR OR DEPUTY AND WOULD INCLUDE AID REP KOREA BARRETT AS WELL AS OTHER AGENCY REPRESENTATIVES.
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